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November 18, 2016

PARTIES OF RECORD

RE: Informal Conference for
Case No. 2016-00230

Enclosed is a memorandum that has been filed in the record of the above-referenced case. Any comments regarding the content of this memorandum should be submitted to the Commission within seven days of receipt of this letter. Questions regarding this memorandum should be directed to Chris Whelan at (502) 782-2644.

Sincerely,

A handwritten signature in blue ink that reads "Talina R. Mathews".

Talina R. Mathews
Executive Director

Enclosure

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Chris Whelan, ^{NEW} Financial Analysis

DATE: November 18, 2016

RE: Case No. 2016-00230
Electronic Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2015 through April 30, 2016

On November 16, 2016, Commission Staff ("Staff") held an informal conference ("IC") with Kentucky Power Company ("Kentucky Power"). Staff notice of the IC was issued on November 14, 2016. The purpose of the IC was to discuss Kentucky Power's forced outage calculation as suggested by the Commission during the November 9, 2016 hearing in this matter.

During the IC, Staff explained to Kentucky Power its belief that the amount to be recovered through the fuel adjustment clause ("FAC") in a forced outage situation¹ is the lesser of the assigned cost of the unit forced out of service or the substitute (or replacement) cost without consideration of the "peaking unit equivalent." Kentucky Power reiterated its belief that its methodology, which includes the use of the "peaking unit equivalent," was required by the Commission's May 2, 2002, and October 3, 2002 Orders in Case No. 2000-00495-B.²

It was discussed that, since the start of the Purchase Power Adjustment ("PPA") Tariff (beginning with the July 2015 expense month), Kentucky Power's use of its methodology has had no effect on its customers because the amount not recovered through the FAC in forced outage situations is recovered through the PPA Tariff. However, a decision remains to be made related to the period November 2014 through June 2015 which are the months of the two-year review period during which the PPA Tariff was not in use.

Discussion was also held regarding the calculation of substitute costs during a forced outage. Staff stated its understanding that the substitute cost of power should reflect the cost of the power that replaced the unit forced out (i.e., if power was

¹ As defined in Administrative Regulation 807 KAR 5:056.

² Case No. 2000-00495-B, *An Examination by the Public Service Commission of the Fuel Adjustment Clause of American Electric Power Company from May 1, 2001 to October 31, 2001* (Ky. PSC May 2, 2002, and Oct. 3, 2002).

purchased to replace the lost generation, then the cost of the power purchases would be the substitute cost; and if power was purchased and Kentucky Power generated additional power from other units to replace the lost generation, then the substitute cost would equal the total of the power purchases and the fuel costs of the additional generation.) Kentucky Power stated that PJM Interconnection ("PJM") has functional control over its units and determines their level of dispatch. Kentucky Power stated that although PJM could require it to start or ramp one of its units when it experiences a forced outage, this is typically not the case and Kentucky Power purchases power during a forced outage.

There being nothing further to discuss, the meeting was adjourned.

Attachment: Sign-In Sheet

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC EXAMINATION OF THE APPLICATION)
OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY) CASE NO.
POWER COMPANY FROM NOVEMBER 1, 2015) 2016-00230
THROUGH APRIL 30, 2016)

Informal Conference – November 16, 2016

Please sign in:

NAME

REPRESENTING

John Park _____ PSC Legal _____

Matthew Baer _____ PSC - FA _____

John Reiness _____ KPCo _____

Mark R. Overstreet _____ STPA: the only for Ky. Pow Co _____

Amy Elliott _____ KPCo _____

Steve Sharp _____ KPCo _____

A. B. Finney _____ PSC Office of General Counsel _____

Chris Whelan _____ PSC - FA _____

Molly Katen _____ PSC Legal _____

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